Salt Sustainable Growth Fund Fact Sheet – January 2022

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in actively seeking to maximise returns while managing the risks of the investment. Salt examines investments for their environmental and social impact as well as the quality of their governance.

Investment Strategy

The Fund aims to provide a total return (after fees and expenses but before tax) above the Reserve Bank of New Zealand's Consumer Price Index + 5% benchmark on a rolling five-year basis, whilst paying a semi-annual distribution of income. To achieve this, the Fund targets a diversified mix of growth and defensive assets, with a focus on securities with strong Environmental, Social and Governance credentials.

The Fund also aims to maximise its total return by outperforming, over the long term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the Fund invests.

Medium-term capital growth is prioritized above income in the fund, nevertheless, the allocation to both growth and yielding assets allows for both objectives to operate over the medium- and longer-term horizons.

Fund Facts at 31 January 2022

Benchmark	NZ CPI +5% over 5 years
Fund Assets	$55.37million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	n/a

Unit Price at 31 January 2022

Application	1.0043
Redemption	1.0002

Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	10%	0% – 25%
International Fixed Interest	5%	0% – 30%
Australasian Shares	25%	10% – 40%
International Shares	35%	20% - 50%
Global Listed Property	10%	0% – 25%
Global Listed Infrastructure	10%	0% – 25%
Alternative Diversifiers	0%	0% - 15%
Cash or cash equivalents	5%	0% – 10%

Fund Allocation at 31 January 2022

New Zealand Fixed Interest	0%
International Fixed Interest	9%
Australasian Shares	24%
International Shares	36%
Global Listed Property	18%
Global Listed Infrastructure	12%
Alternative Diversifiers	0%
Cash or cash equivalents	1%

Fund Performance to 31 January 2022

Period	Fund Return	Benchmark Return
1 month	-4.41%	n/a
3 month	-0.27%	n/a
Since inception	0.22%	n/a

Performance is after all fees and does not include imputation credits or PIE tax. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Holdings at 31 January 2022

Fisher & Paykel Healthcare	Reckitt Benckiser Group
Microsoft Corporation	Accenture
Spark New Zealand	SAP
Visa	Baxter International
Mainfreight	Becton Dickinson

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Market Commentary

Developed market equities reversed direction downwards after a positive fourth quarter of 2021, delivering a sharp dip in returns that stopped only barely short of the -10% level that conventionally defines a "correction" in the broad US market. At its weakest point in January, the S&P 500 Index had declined by -9.9%. However, highly-valued Information Technology companies traded on the US NASDAQ were somewhat weaker, leading the NASDAQ-100 Index to have moved down by -10.6% between New Year and the first week of February. Mid-February saw a partial rebound in stocks.

Following a strong 2021, January was a rough start to 2022 for both equity and bond markets. Higher inflation, concerns about central bank tightening, political tensions in eastern Europe and Omicron all contributed to market weakness in January and to a sharp increase in volatility. Many countries are seeing some softening in activity indicators. Much of this is Omicron-related and thus, temporary. However, we expect lower overall global growth this year compared to last, though remaining above trend.

Most central banks are shifting to a more hawkish stance, though not all have yet acted, particularly as measures of core inflation rise and labour markets tighten, rending the transitory inflation narrative erroneous. US consumer price inflation continued to rise, coming in at 7% for the year to December 2021, the highest level since 1982. At the same time the US labour market continues to tighten with the unemployment rate falling to 3.9%, also for December 2021.

The US Federal Reserve is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment which lasted throughout January, affecting most world markets.

In **Australia**, higher than expected December quarter inflation led to expectations the RBA would likely end its bond purchase program at its February meeting, which has indeed happened. While the RBA remains dovish, we expect interest rate lift off in 2H22.The ASX 200 Equity Index declined by 6.8% for the month, but remains up 5.5% in the year to January.

In **New Zealand**, the higher inflation/tight labour market story continued to evolve as CPI inflation rose to 5.9% in December and the unemployment rate fell to a record low 3.2%. This supports our expectation of ongoing tightening by the RBNZ and a likely terminal rate for the OCR of 3%. New Zealand GDP contracted by less than expected in Q3 and the economy is slowly emerging from a long lockdown in Auckland. Activity will rebound in the fourth quarter, but a full recovery won't be achieved until early 2022. The RBNZ raised interest rates for the second time this cycle during November and signalled ongoing rate hikes ahead with a terminal rate higher than neutral. New Zealand 10-year yields again rose over the month, to 2.56%. The NZX 50 ended January 8.8% (in NZD) lower and was down by 9.4% over the year.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund was negatively affected by the weakness in global markets in January, sacrificing most of its December 2021 gain with a January fall of -4.41%. The declines in January month have led to a slightly negative three month return of -0.27%, and hampered the net gain since the Fund's inception in mid-September 2021, reducing it to just +0.22%.

In contrast to late-2021, all components of the Fund (excluding Cash) contributed negative returns for to the Salt Sustainable Growth Fund for the month. The sharp dip in NZ equities over the month made the largest negative contribution, as Core NZ Shares subtracted -2.27%. Among the Fund's international assets, Sustainable Global Property Fund contributed -0.89% of the overall negative return, whilst the Sustainable Global Shares Fund deducted -0.84% and Sustainable Global Infrastructure, -0.39%. Even the International Bond component was of limited diversification benefit as higher yields around the world led to a -0.09% drag on the Sustainable Growth Fund from that source (though it should be noted that the global bonds held were considerably more resilient than the broad global fixed income benchmark in January.)

While the Salt Sustainable Global Shares Fund provided -0.8% towards the Growth Fund's monthly return, as the Global Shares Fund's own monthly decline of -2.3% was passed through, as the Growth Fund's largest individual component. Nevertheless, the negative impact in January was less than half the scale of December's positive impact, which was 6.0%. Investors witnessed continuing strength in US corporate earnings but re-opening plans around the world, even in economies where vaccination rates are sufficiently high have been compromised by Omicron. The US Federal Reserve's shift in tone to a more inflation-adverse stance has also challenged investor sentiment. We believe that in 2022, the specific companies favoured in the Sustainable Global Shares Fund will be able to protect their pricing power in an inflationary environment better than peers and that their activities in the Healthcare, Consumer Staples, Financials and quality IT industries will give them comparative resilience to changes in the global economic cycle, including higher inflation and interest rates.

The international Real Asset components of the Sustainable Growth Fund both made smaller negative performance contributions in January month. This reflects their smaller scale within the Sustainable Growth Fund. Together, these Real Asset diversifiers presently comprise 30% of The Sustainable Growth Fund's holdings, compared to 35% for Sustainable Global Shares.

New Zealand equities were the primary negative influence for the month, with the Salt Core New Zealand Shares Fund providing -2.3% toward the Sustainable Growth Fund's overall return. International Fixed Interest responded negatively to higher expected interest rates. The Global Fixed Interest component of the Sustainable Growth Fund (with just a 9% current portfolio weighting) weakened by -1.20% in January. While this is an anaemic return from International Fixed Interest, seen in the context of a very weak period for that asset class, the performance of the fund has been resilient compared to its benchmark, outperforming by 0.41% last month.

Greg Fleming, MA

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